From: Stephanie McGinnis
To: Tim DeSpain
Subject: October Finance Committee LJM3 Materials

Tim,

Here is the revised file with Mr. Skilling's changes:

3-9283

I will forward this file to Rebecca Carter as well with all of our other files.

Thanks,
Stephanie
--------------------- Forwarded by Stephanie McGinnis/HOU/ECT on 09/28/2000 10:19 AM ---------------------------

Enron Global Finance

From: Tim DeSpain 09/28/2000 09:50 AM

To: Rebecca Carter/Corp/Enron@ENRON, Stephanie McGinnis/HOU/ECT@ECT
cc: Andrew S Fastow/HOU/ECT@ECT, Scott Sefton/HOU/ECT@ECT
Subject: October Finance Committee LJM3 Materials

Attached please find two files pertaining to the upcoming October Finance Committee and Board meetings. Andy would like for these files to be placed on the Finance Committee Agenda (as part of his Chief Financial Officer Report) and on the Full Board Agenda in the same format as was done for the LJM 2 approval at the October 11, 1999 Meeting. The first attached file is the LJM 3 overview and the second file contains a proposed resolution.

Please let me know if you have any questions.

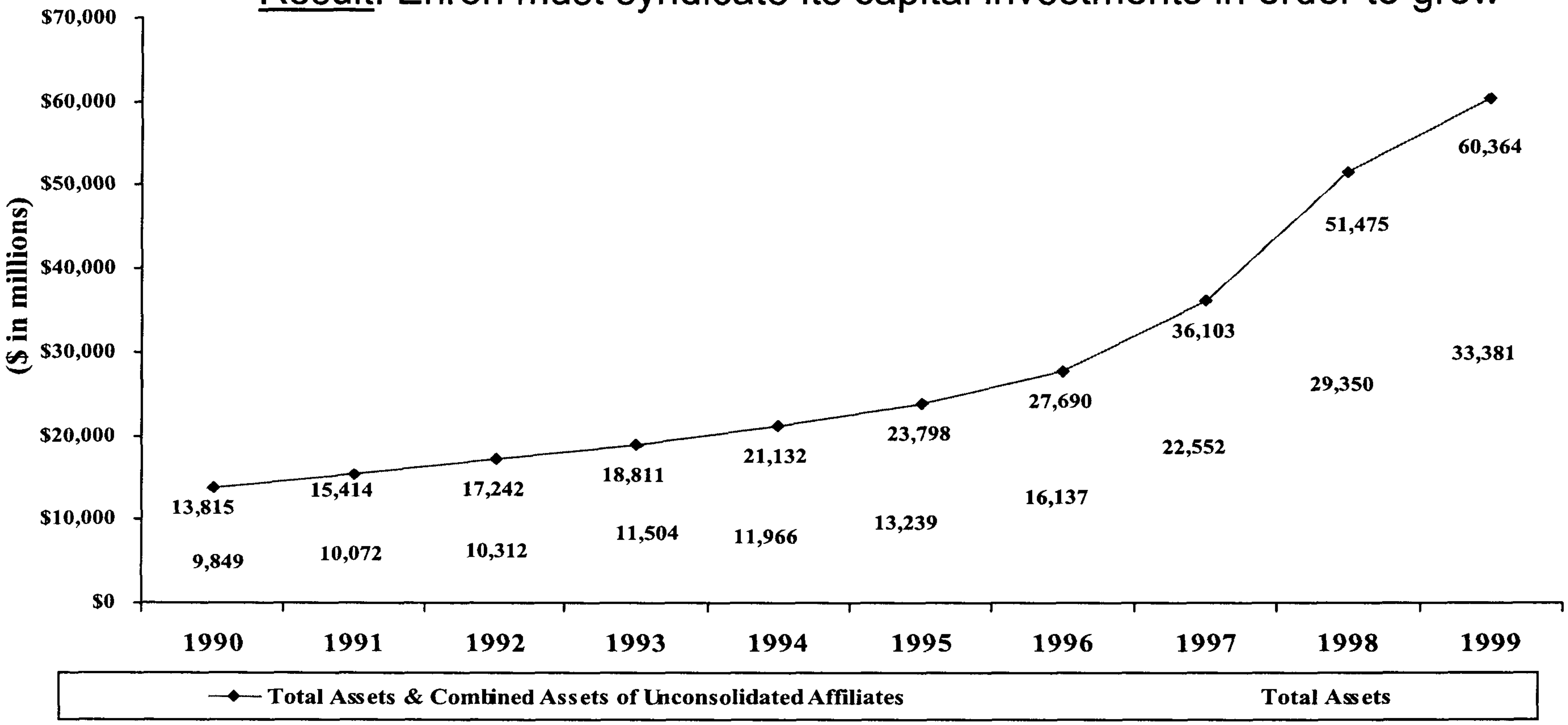
Tim

GOVERNMENT EXHIBIT
24519
Crim No. H 04-0025

LJM 3

Private Equity Strategy

- Continued significant capital investment by Enron
- Energy and communications investments typically do not generate significant cashflow and earnings for 1-3 years
- Limited cash flow to service additional debt
- Limited earnings to cover dilution of additional equity
- <u>Result</u>: Enron must syndicate its capital investments in order to grow



Rationale for LJM Structure

- New FASB consolidation rules
- Better ability to manage risk positions (non-affiliate status)
- Better ability to manage financial flexibility

LJM1 and LJM2 Summary

- **LJM1**
  - Formed in June, 1999, with $16 million of equity.
  - Hedged Enron investment in Rhythms NetConnections resulting in a gain of approximately $175 million for Enron.
  - Purchased minority interest in Cuiaba so that Enron could deconsolidate the project.
- **LJM2**
  - Formed in December, 1999, with $394 million of equity.
  - Invested $403 million in 21 transactions.

Conflicts of Interest

- **LJM creates a conflict of interest for EVP/CFO of Enron**
  - Negotiates investments in Enron transactions/business for LJM.
  - Receives value from LJM if fund performs well.
  - Allocates time to LJM matters.

- **Conflict largely mitigated**
  - Board resolution does not relieve A.Fastow of fiduciary responsibility to Enron.
  - OOC or Board can ask A. Fastow to resign from LJM at any time.
  - R. Causey/R. Buy/J. Skilling approve all Enron-LJM transactions.
  - Annual audit committee review of LJM (February).
  - Legal department responsible for maintaining audit trails/files on all transactions.
  - Review of A. Fastow economic interest in Enron and LJM presented to J. Skilling.
  - No obligation for Enron to transact with LJM.

LJM3

- Follow-on private equity fund to LJM1 and LJM2.

- Purpose: Alternative, optional source of private equity for Enron to manage its investment portfolio risk and financial flexibility.

- Structure to be substantially similar to LJM2.

- Finance Committee/Board of Directors action requested:
  - Ratify decision of Office of Chairman to waive Code of Conduct in order to allow A. Fastow involvement as General Partner of LJM.

LJM 3

Private Equity Strategy

- Continued significant capital investment by Enron
- Energy and communications investments typically do not generate significant cashflow and earnings for 1-3 years
- Limited cash flow to service additional debt
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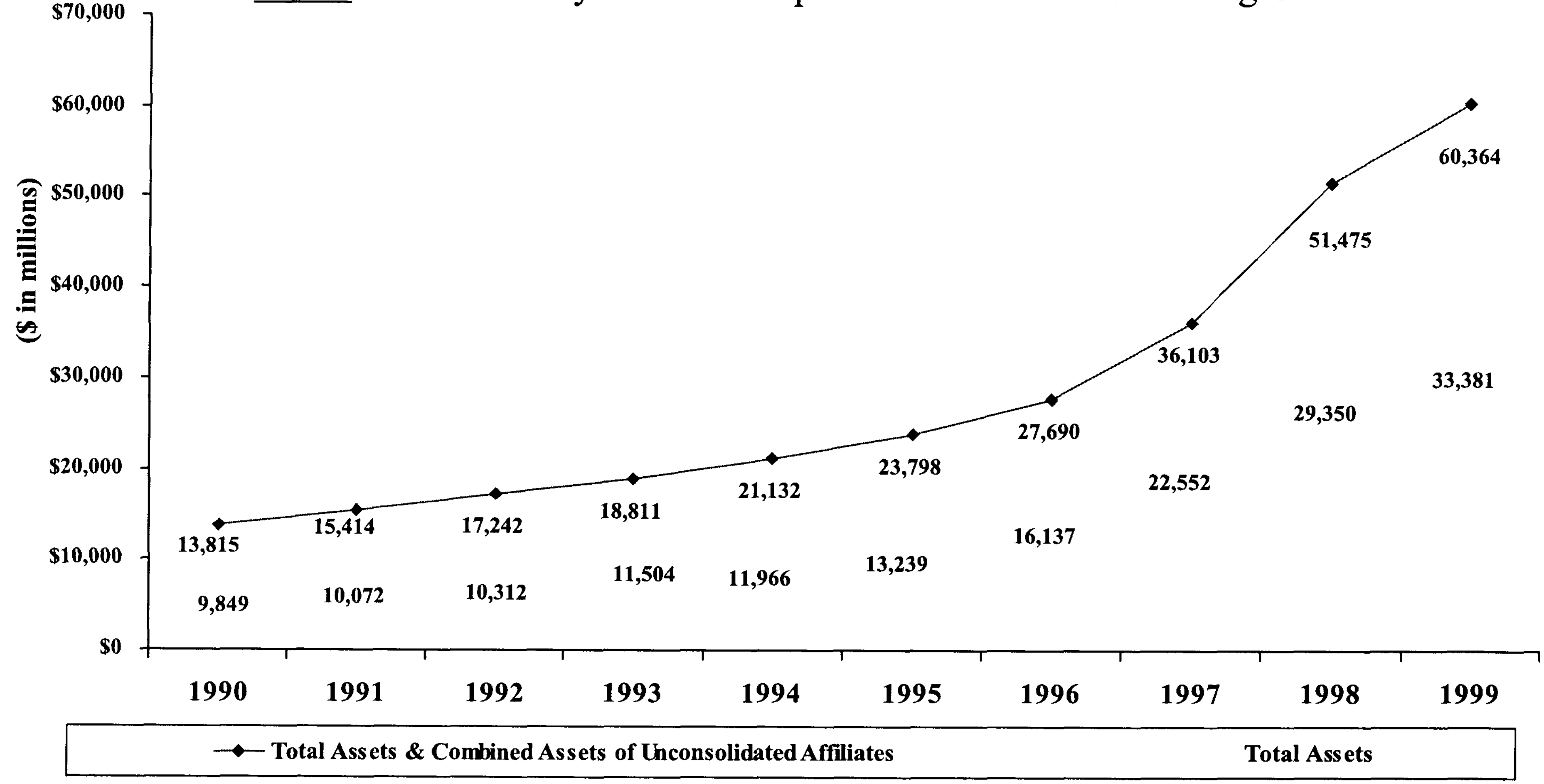

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  - Formed in June, 1999, with $16 million of equity.
  - Hedged Enron investment in Rhythms NetConnections resulting in a gain of approximately $175 million for Enron.
  - Purchased minority interest in Cuiba so that Enron could deconsolidate the project.

- **LJM2**
  - Formed in December, 1999, with $394 million of equity.
  - Invested $403 million in 21 transactions.

Examples of Benefits to Enron

- **Raptor**
  - Avici
  - TNPC
  - Gas LDCs
- **Barges**
- **Resco**
- **Turbines**

Conflicts of Interest

- **LJM creates a conflict of interest for EVP/CFO of Enron**
  - Negotiates investments in Enron transactions/business for LJM.
  - Receives value from LJM if fund performs well.
  - Allocates time to LJM matters.

- **Conflict largely mitigated**
  - Board resolution does not relieve A.Fastow of fiduciary responsibility to Enron.
  - OOC or Board can ask A. Fastow to resign from LJM at any time.
  - R. Causey/R. Buy/J. Skilling approve all Enron-LJM transactions.
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LJM3

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- <u>Purpose</u>: Alternative, <u>optional</u> source of private equity for Enron to manage its investment portfolio risk and financial flexibility.
- Structure to be substantially similar to LJM2.
- Finance Committee/Board of Directors action requested:
  - Ratify decision of Office of Chairman to waive Code of Conduct in order to allow A. Fastow involvement as General Partner of LJM.

Agenda Item _____
RATIFICATION OF DETERMINATION
(Suggested Form of Resolutions)

WHEREAS, Andrew S. Fastow serves as the Executive Vice President and Chief Financial Officer of the Company;

WHEREAS, Mr. Fastow has the opportunity to participate in the formation of an investment partnership (the "Partnership") that would not be affiliated with the Company;

WHEREAS, it is anticipated that Mr. Fastow will serve as the managing partner/manager of the Partnership;

WHEREAS, it is anticipated that the Partnership will invest in, among other things, energy and communications-related businesses and assets, including businesses and assets of the Company;

WHEREAS, the Partnership, as a potential ready purchaser of the Company's businesses and assets or as a potential contract counterparty, could provide liquidity, risk management, and other financial benefits to the Company;

WHEREAS, the Board has evaluated two similar previous investment partnerships in which Mr. Fastow has served as the managing partner/manager and has concluded that the existence of such investment partnerships, and Mr. Fastow's involvement therein, has been beneficial to and in the best interests of the Company;

WHEREAS, the Office of the Chairman of the Company has determined, for the foregoing reasons, that Mr. Fastow's participation as the managing partner/manager of the Partnership will not adversely affect the interests of the Company;

NOW, THEREFORE IT IS RESOLVED, that the Board hereby adopts and ratifies the determination by the Office of the Chairman pursuant to the Company's Code of Ethics (Conflicts of Interests, Investments, and Outside Business Interests of Officers and Employees) that participation of Mr. Fastow as the managing partner/manager of the Partnership will not adversely affect the interests of the Company; and

RESOLVED FURTHER, that the proper officers of the Company and its counsel be, and each of them hereby is, authorized, empowered, and directed (any one of them acting alone) to take any and all such further action, to amend, execute, and deliver all such further instruments and documents, for and in the name and on behalf of the Company, under its corporate seal or otherwise, and to pay all such expenses as in their discretion appear to be necessary, proper, or advisable to carry into effect the purposes and intentions of this and each of the foregoing resolutions.